

**BUDGET WORKSHOP
CITY COUNCIL
CITY OF NASSAU BAY, TEXAS
JULY 15, 2020
6:00 PM
VIA TELECONFERENCE**

MEMBERS OF COUNCIL PRESENT: Mayor Mark Denman, Mayor Pro Tem Don Matter, Councilmembers John Mahon, Bob Wartens, Matt Prior, and Councilmember-Elect Phil Johnson

MEMBERS OF COUNCIL ABSENT: Councilmember Ashley Graves (arrived 6:08pm) and Councilmember Bryce Klug

OTHERS PRESENT: City Manager Jason Reynolds, City Secretary Sandra Ham, Assistant City Manager Mary Chambers, Finance Director Csilla Ludanyi, Police Chief Tim Cromie, Emergency Management Coordinator Dena Mahon, Fire Chief Tom George, Building Official Mark Stelly, and Human Resources Manager Chani Honeycutt

PRESIDING: Mayor Mark Denman

CALL TO ORDER AND ROLL CALL OF MEMBERS

Mayor Mark Denman called the meeting to order at 6:05 p.m. and announced a quorum of Council was present with five elected officials in attendance.

CITIZENS' REQUEST FOR HEARING BEFORE CITY COUNCIL

Mayor Mark Denman announced a Public Hearing for citizens to address Council regarding any issues or concerns.

The Public Hearing was opened at 6:06 p.m.

There being no one wishing to speak, the Public Hearing was immediately closed.

BUDGET WORKSHOP

Presentation and discussion regarding the City Manager's proposed budget for Fiscal Year 2021

City Manager Jason Reynolds indicated this would be an overview of the Water Sewer Fund, CIP requests, and a remaining wrap-up of the General Fund budgets. Finance Director Csilla Ludanyi began the discussion by providing an overview of the Water Sewer FY21 Budget proposal. The primary discussion would be related to capital outlays.

Ms. Ludanyi reviewed prior City Council action, stating Council approved a rate increase in FY19 to pay for the water and sewer line rehabilitation project. While in the process of focusing on the water and sewer line rehabilitation, the City of Houston provided a delayed notice, and untimely communicated to the City of Nassau Bay that there was previous debt related to the Southeast Water Purification Plant's (SEWPP) Southeast Transmission Line (SETL). The City is now in a communication receiving mode. This newly received

information has delayed the water and sewer line rehabilitation project for approximately 1.5 years. There are advantages to the delay, but this delay does create drastic changes to the project timeline.

Finance Director Ludanyi continued with an overview of the water and sewer fund revenue and budget. Maintenance and operations expenditures are relatively stable. The Texas Water Development Board (TWDB) debt and expenses are projected within this FY21 Budget. She continued by describing the available cash flow for capital infrastructure and noted that currently, there are no general fund reserves included in the presented numbers. Ms. Ludanyi indicated capital projects are outside of the scope of the utility billing revenue, and the City requires a suitable plan for long-term projects.

Finance Director Ludanyi shared the new information received from the SEWPP regarding the project cost timeline, which was updated July 13, 2020. The City received the amended project cash call schedule. As the FY22 payment date of August 30, 2021 takes place in the City's FY21 budget year, the City is budgeting \$339,619.51 for this payment. The FY23 payment is approximately \$28,000 and the FY24 payment is approximately \$1.3 million. Due to the payment amounts, debt can be issued for this payment alone. This new payment schedule allows more breathing room and allows the City to begin the intended phases with the water and sewer line rehabilitation project.

Continuing to recap the water and sewer capital for FY20, Ms. Ludanyi provided detailed information on the CIP water and sewer allocations for FY20. For the water fund, these include the SEWPP annual capital contribution from the reserves, the SEWPP CIP True-Up for FY12 through FY17 (which was invoiced on March 6, 2019 and June 19, 2020), the SEWPP CIP True-Up for FY19, the SEWPP annual ongoing CIP projections, and the SETL CIP. For the sewer side, there will be no sewer line and manhole rehabilitation, which is also delayed with the replacement of the existing gas feed system. These allocations do include the City's portion of the sand filter, of which \$401,000 will be paid for in FY21 by the EDC. Additionally, there is allocation for the elevation of the chlorine tanks.

Mayor Pro Tem Don Matter requested additional details on the sand filter project. Ms. Ludanyi stated the project was in the engineering stage, with a majority of the expenditures realized in FY21. Public Works Director Paul Lopez also briefly provided details on the project.

In reviewing FY21 CIP allocations, approximately \$1.5 million will be expended for the water line rehabilitation, along with ongoing CIP projections for the SEWPP. On the sewer side, approximately \$1.4 million will be expended for the sewer line rehabilitation.

Finance Director Ludanyi continued with an overview of the water and sewer fund infrastructure proposals for the next fourteen years. The City is planning for few projects for FY2022, as FY21 will have many projects. Currently, the utility rates cover the maintenance and operations, with a general revenue of \$180,000, but for future capital projects, City Council will need to plan for continued revenue. City Manager Reynolds indicated there are ongoing capital pieces that need to be addressed, as he believes in 20 years the water and sewer treatment plan will require significant work.

City Manager Reynolds continued the discussion with an overview of all of the City's Capital Improvement Projects. He indicated there are many projects, with some delayed

or cancelled due to COVID. For water/sewer CIP, there is the TWDB water/sewer lines, the SETL, sand filter, chlorine tank elevation, and the WWTP control room hardening, which is currently proposed to be paid for with grant funding. Drainage projects were largely completely inhouse, providing project cost savings. Additionally, Harris County and the TIRZ has provided funding for the storm pumps.

For street CIP Projects, the San Sebastian paving improvements were cancelled by Council, with the joint sealing project and pothole program to continue. For dredging, the focus on David Braun Park erosion control has been delayed due to other priorities and funding needs. For park CIP projects, there were issues with the playground due to a large difference in estimates provided by the contractor, and the project was pushed to FY21. For FY21, additional projects include Founder's Park, a sundial, the pickleball courts, and the FEMA pavilion rehabilitation.

For additional CIP projects, there is ongoing document scanning in the Building Department, Axon body cameras for the Police Department, a boathouse for the Fire Department, Stryker power load for the EMS Department, and server replacement for the IT Department. For General and Administrative CIP Projects, there is facility signage and City Hall and Conference Facility maintenance. The CIP list also includes the Fleet replacement fund.

The TWDB water/sewer lines, SETL, sand filter, and chlorine tank elevation remain on the CIP list for FY21. Other projects include pump upgrades and San Sebastian paving improvements. For Parks, all of the FY20 projects will rollover to FY21. Additionally, the Building Department document scanning project is ongoing. Various other items include Axon body cameras for the Police Department, the Fire Department boathouse, the EMS Department Stryker power load, continued maintenance for City Hall and the Conference Facility, and the Fleet replacement fund. Fire Chief Tom George provided a brief summary of the Fire Department's CIP request for a ladder truck. Concluding, the total CIP budgeted for FY21 is \$4,495,219, with water/sewer comprising \$2,015,779 and the General Fund comprising \$2,479,440.

Mayor Denman indicated he did not support the Fire Department ladder truck at the current moment in time. Councilmember Matt Prior was in agreement, especially with current financial constraints. Mayor Denman proposed when the TIRZ is dissolved that perhaps City Council could utilize those funds to pay for a ladder truck. Fire Chief George indicated the 100-foot ladder truck was needed for credit in the ISO rating, rather than a smaller ladder truck.

Mayor Denman request additional details on the City's ISO rating, which Fire Chief George indicated the rating was at 2. He indicated for the City to reach a 1 would be almost impossible without an employee paid department. Councilmember John Mahon inquired whether the Department could function with a smaller truck. Fire Chief George said yes, but it would not be of assistance to the ISO rating, which is directly related to fire insurance rates.

Councilmember Wartens requested details regarding the \$35,000 allocated to Founder's Park, believing \$100,000 was to be carried forward. City Manager Reynolds indicated \$35,000 was the correct number approved.

Councilmember-Elect Phil Johnson transitioned the discussion and requested additional information on the City's playground equipment, specifically if there were any safety concerns. Public Works Director Paul Lopez indicated there were no safety concerns, and indicated much of the work for repairs is being performed in-house.

Mayor Denman asked for further information about the ISO rating, where the City ranks, and the impact of the rating on the City. Chief George indicated he would provide further information at a future Council meeting. City Manager Reynolds emphasized that in the near future another fire truck would need to be purchased, whether it be a ladder truck or regular fire truck.

Mayor Denman also commented on the almost \$200,000 in the Parks budget line which hasn't been utilized. Mr. Reynolds indicated committee discussion is still needed. Finance Director Ludanyi indicated funds can typically accumulate from previously budgeted capital projects that have carried forward. These projects are typically left as a placeholder.

Mr. Reynolds continued and inquired upon Council for a clear focus on Council's priorities for FY21. Councilmember Wartens stated the need for no further delay on Founder's Park. Jason stated he would need clear direction on the plan. Mr. Wartens emphasized that the project has already been approved. Discussion ensued, with Mr. Reynolds highlighting the various views on the Founder's Park project, with no general consensus. He noted the general discussion seemed to lean towards the installation of a sidewalk. Councilmember-Elect Johnson inquired on the cost differences between walkway rather than a driveway. Mr. Reynolds indicated plans will be presented to City Council at an upcoming meeting for final decisions. Public Works Director Lopez added that \$35,000 has been allocated as a placeholder for the park project.

Councilmember John Mahon asked to discuss the potential Fire Department boathouse. City Manager Reynolds indicated there was money set aside prior to Commissioner Adrian Garcia's grant. Mr. Reynolds stated the additional funds would be utilized to revamp the boathouse area. With the \$25,000 allocated, the boathouse can be a full-service area for first responders. There was continued discussion on the features, attraction for law enforcement utilization, and overall design.

City Manager Reynolds continued the discussion with the TWDB water / sewer lines. He stated the project is currently in phase 1, with funds to be received in the coming months. The rate studies would be performed in FY21, to start planning and funding the next round of debt. It was stated for phase 3 there would be a sunset clause. At that time there will be a reassessment of which lines need to be replaced. Mr. Reynolds described which water lines have already been completed in the project. As there have been significant breaks, Public Works Director Lopez will return with City Engineer Dave Kasper to reevaluate which lines need to be completed next.

For the wastewater lines, the City has performed much of the replacement work, with a good portion of the City lines already completed. Mr. Reynolds presented a visual presentation of the proposal for phase 1. He indicated that in phase 4 or phase 5, the project can possibly slow down, as much of the sewer lines will have already been replaced. Bal Harbour may be the last area replaced, as the lines are constructed of PVC, which has a longer life span. Lastly, City Manager Reynolds overviewed the TWDB debt

and timelines through FY33. There was a brief discussion on the reliance of debt to fund these projects and additional discussion on the average number of water breaks per year.

Councilmember-Elect Johnson continued the discussion on the water rate study. Finance Director Ludanyi indicated the utility rate study will help provide projections for the long-term capital projects. The General Fund will be infusing approximately \$1 million into the water sewer fund. Councilmember-Elect Johnson emphasized his desire for cash flowing the projects. Ms. Ludanyi noted that a utility rate study could also be funded out of the water sewer fund.

Mr. Reynolds transitioned the discussion for follow-up on the General Fund discussion, specifically finding avenues for expenditure reductions. Mayor Denman emphasized that he objects to any move towards a reduction in employee benefits. He also stated he does not want to be below the benchmark for employee benefits as compared to other regional cities. City Manager Reynolds emphasized a need for clearer direction. Councilmember Wartens stated that in order to make a real decision, there was need to have better knowledge on the property values from the appraisal district.

Mayor Denman stated that suggestions need to be generated from Council so the draft budget can move forward. Mayor Denman stated removing the TMRS Unfunded Actuarial Accrued Liability (UAAL) and a two-point increase will help fund the budget deficit created by the recently added police and EMS salary increases. Additionally, he stated if property values are reported as an increase, then those tax rate increases are needed in the budget for other projects.

Finance Director Ludanyi spoke on tax rate proposals and the anticipation of the delivery of the certified tax rolls, which could be a month earlier based on new legislation. Councilmember Wartens requested for the tax rate to be raised by two-points and recommended for the stoppage of the additional UAAL payment in order to provide a more balanced budget. This solution could be utilized until the tax values are reported and finalized. City Manager Reynolds emphasized City staff still works aggressively to reduce budget expenditures.

Councilmember Matt Prior stated his support to make changes to the employee benefits and wanted further review of the overall impact of the unfunded liability to the budget. He does not support removal of the \$68,000 additional payment for the UAAL, as he believes the overall impact of the liability is a large burden to the City. Mr. Reynolds stated he meets quarterly with regional city managers and continues to benchmark data, which he can provide to City Council. Councilmember Wartens wanted to distinguish the point that the reduction of the \$68,000 additional payment does not affect employee benefits.

City Manager Reynolds discussed the rate the City pays into the TMRS system, how the additional payment works to reduce the liability, and how the COLA differences reflect on the liability. Mayor Denman commented that the police salary increases were a recently added priority for Council. This new salary increase priority changes the approach forward and City Council's previous priority on TMRS. Mayor Denman emphasized this new salary increase priority for the Police Department should not provide any detrimental effect on the other employees. Another consideration would be delaying the police salary raises until calendar year January 1st, which would assist in reducing up-front costs.

Police Chief Tim Cromie provided further details about the current Police Department's salary compensation and marketability. Councilmember-Elect Johnson inquired whether the TMRS benefit is a large factor in officer recruitment. Chief Cromie indicated that TMRS is a gold standard across the state. City Manager Reynolds echoed that sentiment regarding the TMRS retirement system.

City Manager Reynolds ended the budget workshop by stating that the HOT Fund and Street Sales Fund still need to be discussed by City Council. Discussion on these topics will be the main focus of City Council's next meeting in August.

ADJOURNMENT

There being no further business, the meeting adjourned at 8:01 p.m.

Minutes approved as submitted and/or amended this 9th day of November A.D. 2020.

CITY OF NASSAU BAY, TEXAS



Mark A. Denman
Mayor

ATTEST:



Sandra V. Ham
City Secretary